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BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268–0001

ANNUAL COMPLIANCE REVIEW, 2013	Docket No. ACR2013

REPLY COMMENTS OF THE UNITED STATES POSTAL SERVICE
(February 14, 2014)

In Order No. 1935, the Postal Regulatory Commission solicited comments on the United States Postal Service's Annual Compliance Report (ACR) for Fiscal Year 2013.[1] On January 31, 2014, the Public Representative and six private parties filed comments.[2] The Postal Service hereby submits its reply comments.

I. Scope of ACR Proceeding

As in past ACR dockets, it has become necessary to reiterate the scope of the instant proceeding under the Postal Accountability and Enhancement Act (PAEA). Section 3653 of title 39 directs the Commission to do four things in this docket, two of which relate to compliance and two of which do not. As to compliance, the Commission is charged with determining: (1) whether any rates or fees in effect during the preceding year were not in compliance with chapter 36 and its accompanying regulations; and (2)

[1] Order No. 1935, Notice of Postal Service's Filing of Annual Compliance Report and Request for Public Comments, Docket No. ACR2013 (Dec. 30, 2013); United States Postal Service FY 2013 Annual Compliance Report, Docket No. ACR2013 (Dec. 27, 2013) ("ACR").
[2] Public Representative Comments, Docket No. ACR2013 ("PR Comments"); Initial Comments of the American Catalog Mailers Association, Docket No. ACR2013 ("ACMA Comments"); Comment of the Greeting Card Association, Docket No. ACR2013 ("GCA Comments"); Comments of Newspaper Assoc. of America ("NAA Comments"); Comments of Pitney Bowes Inc., Docket No. ACR2013 ("Pitney Bowes Comments"); Initial Comments of United Parcel Service ("UPS Comments"); Valpak Direct Marketing Systems, Inc. and Valpak Dealers' Association, Inc. Initial Comments on the United States Postal Service FY 2013 Annual Compliance Report, Docket No. ACR2013 ("Valpak Comments").

whether any service standards in effect during the preceding year were not met.[3] Separate from these compliance determinations, the Commission: (3) is directed to review whether the Postal Service has met its performance goals; and (4) may advise the Postal Service as to the protection or promotion of the public policy objectives of title 39.[4] While fewer comments fall outside the scope of the ACR this year than in years past, the tendency remains. Most notable in this regard are the Initial Comments of UPS, discussed in more detail below.

It may also be useful to reiterate that wide scope of comments submitted precludes response to each and every assertion made by the parties. The mere fact that the Postal Service in these reply comments does not address a claim, argument, or opinion expressed in an initial comment should not be construed to suggest that the Postal Service agrees with that claim, argument, or opinion.

II. Comments of Valpak

Similar to its remarks in previous ACR proceedings, Valpak focuses the majority of its comments on issues related to underwater products. While many of these issues appear to be designed to relitigate the Commission's decision in Docket No. R2013-11, Valpak's critiques of the Postal Service's pricing of Standard Mail Flats ("Flats"), including its submission of a revised Standard Mail pricing model, are particularly relevant to these proceedings. The below comments are designed to clarify some of Valpak's misimpressions.

With respect to Flats pricing, Valpak claims that the Postal Service has shown "no respect for compliance with the Commission's orders," and that it remains

[3] 39 U.S.C. § 3653(b).
[4] 39 U.S.C. § 3653(d).

"insensitive to mailers of highly profitable Standard Mail products."[5] To bolster these claims, Valpak points to the increased cost coverage gap between Flats and High Density/Saturation Letters.[6] While it is easy to understand why a mailer of High Density/Saturation Letters would focus its attention on the cost coverage gap between these products, this argument is simply not germane to whether the Postal Service has complied with the Commission's orders, particularly its order in the Annual Compliance Determination for Fiscal Year 2010 ("2010 ACD Order").[7] In this regard, it is noteworthy that Valpak's comments virtually ignore the over five percentage point increase in Flats cost coverage achieved since the FY 2011 ACD. This omission is rather remarkable given that the Commission's 2010 ACD Order directed the Postal Service to "increase the cost coverage of the Standard Mail Flats product through above-average price adjustments...and cost reductions."[8] As evidenced by: 1) the implementation of two above average price increases for Flats in Docket Nos. R2013-1[9] and R2013-10;[10] 2) the recent improvement in Flats' cost coverage;[11] and 3) the Postal Service's commitment to implementing the schedule of above-average price increases approved by the Commission in the FY 2012 ACD,[12] the Postal Service believes that it is in full compliance with the Commission's orders and directives.

[5] *Id*. at 19.
[6] *Id*.
[7] *See* Docket No. ACR2010, Annual Compliance Determination for Fiscal Year 2010, at 106-107 (March 29, 2011).
[8] *Id*. at 106.
[9] Docket No. R2013-1, Order No. 1573: Order on Standard Mail Rate Adjustments and Related Classification Changes, at 4 (December 11, 2012).
[10] Docket No. R2013-10, Order No. 1904: Order Approving Amendments to Market dominant Price Adjustments, at 4 (December 11, 2013).
[11] See United States Postal Service FY 2013 Annual Compliance Report, at 19-20 (December 27, 2013).
[12] Docket No. ACR2012, Annual Compliance Determination Report for Fiscal Year 2012, at 115-116 (Revised, May 7, 2013).

Valpak also introduces an "improved"[13] Standard Mail pricing model that it describes as "disproving" the Postal Service's assertion that long-run contribution can be harmed by dedicating too much price-cap authority to Standard Mail Flats (a product in autonomous decline).[14] Unfortunately, in its current state, Valpak's model remains seriously flawed.[15]

First, though Valpak describes its model as being "multi-period,"[16] the model only presents a two-year time horizon.[17] As was demonstrated in the Christensen Associates analysis presented in the 2012 ACR, more than two years is needed for the long-run effects to materialize.[18] Second, while Valpak's model purports to allow for exogenous trends in volumes, the results presented in Valpak's comments assume no secular volume declines and thus fundamentally fail to address the Postal Service's central concerns that were addressed in the Christensen Associates analysis.[19] Finally, even if Valpak's model were validly extended beyond a two-year horizon, the model only explores a single price path – maximum contribution in Year 1 followed by

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[13] Valpak Comments at 20.
[14] *Id*. at 60.
[15] Neither Valpak's comments nor the Appendix provide sufficient detail on the extension of the model to two years to allow the Postal Service to fully assess the economic validity of the modifications. However, it appears that the new Valpak model assumes that the optimum contribution can be obtained by a sequence of a static short-run solutions—i.e., determining maximum contribution in Year 1 followed by maximum contribution in Year 2 = maximum contribution in the long-run. If this is the case, then Valpak's model will not generally provide an optimal solution, as sequences of "myopic" optimums do not generally solve intertemporal optimization problems. The general solution to such problems involves simultaneously optimizing over all of the control variables in the problem. Under some regularity conditions on the optimization problem, the general optimum may be simplified by dynamic programming methods, which usually involve recursive algorithms in which the optimum is determined by determining the optimum in the last period and working *backwards* to the present. See, e.g., Thomas J. Sargent, Dynamic Macroeconomic Theory (Cambridge, MA: Harvard University Press, 1987), pp. 11-16.
[16] Valpak Comments at 25.
[17] *Id*. at 40.
[18] Docket No. ACR2012, Scenario Analysis for Standard Mail Contribution, in USPS-LR-FY12-43.
[19] In this regard, it is worth noting that in FY 2013, Flats and other Standard Mail products once again evidenced diverging fortunes: Flats volume decreased by 6.3 percent while all other Standard Mail volume (after Flats volume is excluded) increased by 2.1 percent. *See* USPS-LR-FY13-42, FY13 RPW Summary Report.

maximum contribution in year two. Unlike the Christensen Associates' model, Valpak's single-path approach fails to consider other price paths that may achieve greater contribution in the long-run.

Finally, in yet another attempt to relitigate the issues from Docket No. R2013-11, Valpak claims that the Postal Service is unconcerned with profitability when it prices Standard Mail, because witness Taufique's response to POIR No. 11, Question 8 mentioned "revenue yield," but not "contribution."[20] This charge is completely without merit. Indeed, it was for good reason that the Christensen Associates Model from the FY 2012 ACD was called "Scenario Analysis for Standard Mail ***Contribution***," not "Scenario Analysis for Standard Mail ***Revenue***," or "Scenario Analysis for Standard Mail ***Volume***." The Postal Service's focus has always been on the bottom line. Rather, the reference to "revenue yield" in witness Taufique's response was included: 1) because revenue yield is an important component of profitability; and 2) because revenue yield is constrained (on a before rates basis) by the price cap.

In short, the Postal Service continues to make progress toward moving Standard Mail Flats toward 100 percent cost coverage and believes that such progress will continue with the implementation of the agreed upon schedule of price increases and future cost savings. Though Valpak might yearn for faster progress, the Postal Service believes that the Commission's current approach best balances the interests of all parties. Accordingly, the Commission should decline to implement any additional orders with regard to Standard Mail Flats pricing.

[20] Valpak Comments at 34.

III. Comments of the Public Representative

The Public Representative has comments on two domestic competitive products that, based on the materials filed with the ARC initially, appeared to be below water. On that basis, the Public Representative discusses the non-NSA portion of Parcel Select (page 47, but erroneously couched in terms of the broader category of “Parcel Select,” despite the fact that the reported costs for Total Parcel Select in USPS-FY31-NP11 were always above water) and Parcel Return Service Contract 4 (pages 51-52). As discussed in the Postal Service’s February 11th responses to ChIR No. 5, however, events subsequent to the filing of the initial comments have changed the landscape for both of these domestic products. Obviously, the Public Representative could not necessarily have anticipated these events when preparing those comments.

As indicated in response to Question 10 of ChIR No. 5, after the revisions to the CRA filed on February 6, 2013, the revised data show that the non-NSA portion of Parcel Select did in fact cover its costs in FY2013. It is expected to do so going forward. With respect to Parcel Return Service Contract 4, as indicated in response to Question 11 of ChIR No. 5, the root of the cost reporting problem is a proxy that was reasonable when proposed for application to this contract, but which became much less appropriate when the size characteristics of the proxy category changed. Reasonable adjustments to the proxy analysis are feasible, and should allow a methodology improvement which will show that revenues from the product, in fact, can be expected to cover costs. Therefore, the Public Representative’s suggestion of contact cancellation would be entirely unwarranted under these circumstances

With respect to the International competitive products discussed by the Public Representative on pages 47-51, concerning International Priority Airmail, the Postal Service provided additional information in response to Question 11 of ChIR No. 3.[21] The Postal Service is also in the process of drafting a response to a follow-up Question 5 of ChiR No. 6. In addition, the Postal Service provided more information about Inbound Air Parcel Post (at non-UPU rates) in its response to Question 3 of ChIR No. 5, while International Money Transfer Service (IMTS) is the subject of Questions 5 and 6 of ChIR No. 5.

IV. Comments of Greeting Card Association

The Greeting Card Association (GCA) requests that the Commission require the Postal Service to provide data and justification related to the new metered prices for First-Class Mail Single-Piece.[22] The Postal Service does not see the need for most of

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[21] The Public Representative finds that the Postal Service's use of the term IPA "parent product" in its response to Question 11 of ChIR No.3 is confusing. To try to clarify, It may be useful to start with the response to Question 11 of ChIR No. 3:

> Non-NSA IPA constitutes about 2 percent of total IPA volume and the costs reported in the ICRA are small residual portions of the entire IPA “parent product” for which costs are estimated.

The cost data systems cannot distinguish between the non-NSA part of IPA and the NSA part of IPA, so the term “parent product” in the response was merely intended to refer to the totality of IPA pieces (NSA and non-NSA) that the cost data systems consider to be IPA. Yet, as noted, of the two parts of “total” IPA, the NSA part constitutes about 98 percent of the total product volume and the non-NSA part constitutes about 2 percent of the total product volume. The line reported in the ICRA as IPA reflects only the data for the non-NSA portion. Perhaps the response to Question 11 might have been clearer if it had indicated that the non-NSA portion of IPA is only a small part of the “parent product” for which costs are *initially* estimated. As described in the next sentence of the Question 11 response, however, the initial estimate of “total” IPA costs is then split for reporting purposes into the NSA and non-NSA portions, and the initial estimate of the “parent product” does not appear as a line in the ICRA. The important point is that the reported (non-NSA) portion of IPA is only the residue remaining after the costs estimated for the much larger NSA portion are subtracted from the initial “total” estimate (and reported instead as part of the Outbound International Global Plus Contracts row). The result is that the initial estimate of “total” IPA costs is overwhelmingly driven by NSA pieces, and the remaining non-NSA part is very difficult to capture for costing purposes.

[22] Initial Comments of the Greeting Card Association (January 31, 2014).

the specific information that GCA requests, especially information that would be relevant only if the new prices constituted a workshare discount.[23]

In establishing the new metered price for single-piece metered letters, the Postal Service created price categories within single-piece letters with postage affixed by meter, information-based indicia (IBI), permit imprint, or pre-cancelled stamps. The new price categories are intended to encourage the adoption of metered mail by small business. But the price does not reflect a workshare discount from the price of the one-ounce stamp, since it does not reflect mailer activities "for the presorting, prebarcoding, handling, or transportation of mail. . . . " 39 U.S.C. § 3622(e)(1).

As stated during Docket No. R2013-10, the Postal Service believes that the nature and senders of metered letters differ from the remainder of single-piece First-Class Mail letters (i.e., stamped and PVI letters).[24] Senders of metered letters are generally small to medium-sized businesses, unlike stamped letters, which are generally sent by individuals or small businesses. The purpose of introducing a lower metered price is to encourage small/medium-sized businesses to choose meters when starting to mail, or to convert from using stamps to meters. This will foster a more consistent use of the postal system, slow down the migration to alternative channels, and grow mail volume in the long run. Although the Postal Service does not feel compelled to produce the workshare-discount information requested by the GCA, the

[23] While the two new price categories (Single-Piece Matchinable Metered Letters and Single-Piece Nonmachinable Metered Letters) include eight prices, only one price (48 cents for one-ounce machinable pieces) reflects separate pricing for metered mail. The other seven prices reflect application of the same 21-cent additional-ounce price and 21-cent nonmachinable surcharge that apply to stamped letters.

[24] *See, e.g.*, Docket No. R2013-10, Response of the United States Postal to Chairman's Information Request No. 6, Question 2 (October 29, 2013).

Postal Service will be in a better position to analyze the impact of the metered mail price with the FY 2014 ACR, consistent with the need for such information at that time.

V. Comments of United Parcel Service

UPS has filed initial comments which it acknowledges right on the first page are primarily directed towards the goal of shaping future proceedings, and which are thus largely irrelevant to the limited issues before the Commission in this proceeding. Nonetheless, some response appears to be warranted to clarify some misimpressions which UPS attempts to promulgate.

The cornerstone of the UPS comments is a claim that, over time, total attributable cost levels have fallen, when expressed as a percentage of total accrued costs. UPS Comments at 2-3. While that assertion may have some validity, UPS totally misconstrues the most obvious source of this change. UPS argues that attributable costs have been "converted" to institutional cost. *Id.* at 3. That claim, however, ignores what has actually happened in recent years, which is that mail volumes have declined dramatically (while the delivery network that the Postal Service is required to serve has expanded). The intuitive result of massive volume declines is to reduce volume-variable (i.e., attributable) costs, while as a practical matter leaving non-volume variable (i.e., institutional) costs predominantly intact. Instead of being "converted" to institutional costs, attributable costs have actually disappeared. And simple arithmetic dictates that as volume variable costs decline (and non-volume variable costs do not), an attribution level defined as the ratio of volume variable costs to the sum of volume variable and non-volume variable costs will, all else equal, necessarily go down.[25]

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[25] Additionally, not only has there been a decline in *total* volume that would be expected to lead to a lower attribution level, but there has likewise been a substantial change in *mail mix* from higher cost First-

Another way to understand the reduction in attribution levels over time is to consider the shift in the composition of total costs away from the cost segments with the highest variabilities and towards cost segments with lower variabilities. The fraction of *overall* costs attributed to products is merely a byproduct of the sequential application of Commission-approved costing methodologies for each cost segment and component. As the proportion of total costs from components with high attribution rates (variabilities), notably Mail Processing and City Carrier In-Office costs, has gone down (for a variety of reasons, including volume declines, mail mix shifts, and operational changes), the overall attribution level (which is nothing more than the weighted average of the variabilities of the various cost segments) will also decline, other things equal. Conversely, if one takes FY2013 variabilities by cost segment and reweights them using the cost shares by cost segment from a previous historical year (such as BY2005 from Docket No. R2006-1), the reweighted overall FY2013 attribution level is approximately the same as that observed in the previous historical year. This phenomenon occurs because the costing methodologies (which largely drive the effective variabilities for each cost segment) are essentially unchanged since Docket No. R2006-1, as can ”transparently” be confirmed by direct examination of yearly Summary Descriptions of Cost Segments and Components provided to the Commission each year. There are no hidden changes in attribution principles.[26]

Class Mail pieces to lower costs Standard Mail pieces that, all things equal, would also have the same effect. This is because the reduction in “average” attributable cost per piece caused by such a mail mix shift affects total attributable costs, but not total institutional costs. Once again, over the time period this shift is occurring, the simple arithmetic of the effects flowing from such a change would tend to make attributable costs disappear relative to those associated with the earlier mail mix, and thus push down the percentage of total costs that are attributable.

[26] One example of attribution principles that have not changed is the treatment of capital expenditures via depreciation. To clarify a misapprehension that may have been fostered by a Postal Service

Thus, when UPS refers (page 3) to a Congressional expectation that attribution levels would increase under the PAEA, such an alleged expectation was certainly not proffered in the context of the unexpected disappearance of approximately one-quarter of total mail volume.[27] All else equal, lower attribution levels are the logically reasonable consequences of volume declines of this magnitude. For UPS to imply that the observed reduction is instead somehow the result of hidden changes taking place under the radar in nonpublic costing procedures (which, of course, are actually the same as public costing *procedures*) is absurd.

UPS also claims that the causes and solutions of declining attribution are less clear because of a "dramatic decline in public transparency since the PAEA was enacted." UPS Comments at 8-9. This claim likewise cannot withstand scrutiny. For example, UPS alleges that deadlines set by the PAEA are so short that parties cannot get access to nonpublic data in a timely fashion to make substantive contributions. *Id.* at 12. Yet elsewhere in its comments (e.g., page 6), UPS manifests awareness that efforts to improve cost attribution will come in rulemaking dockets like the current

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response in Docket No. PI2013-1 (see UPS Comments at 5), once capital commitments are converted to actual capital purchases, the resulting depreciation expenses are attributed to both Market Dominant and Competitive Products using established distribution methodologies. The depreciation amounts attributed to Competitive Products in FY2013 are found in USPS-FY13-39, FY13 CP04 Excel file, second tab, cells B26, C26, and D26, and include all depreciation expenses regardless of the fiscal years in which the underlying capital expenditures were made.

[27] Moreover, the legislative sources which UPS itself cites make clear that a substantial portion of the decline in attribution levels from the 65 percent in Docket No. R97-1 (cited by UPS on page 2) had already occurred under the PRA by 2004, at which time the Senate Report (quoted by UPS on page 3) identified the attribution level as "60 percent." In fact, if one uses the same source (Appendix E to the Opinion & Recommended Decision) for the last rate case under the old PRA ratemaking regime (Docket No. R2006-1, Feb. 26, 2007, Vol. 2 at page 33) as UPS uses for Docket No. R97-1, the Commission-approved attribution level was 55.4 percent. Any suggestion that the FY13 attribution level of which UPS complains on page 2 (54.2 percent) might support a claim that attribution levels have "fallen sharply" under the PAEA would not withstand scrutiny. Certainly there is nothing new (in terms of attribution levels) in the FY13 ACR which reveals any "disturbing trends" (UPS Comments at 2), or explains why UPS is suddenly calling into question established attribution methodologies that are essentially unchanged since Docket No. R2006-1.

Docket No. RM2011-3. The PAEA imposes no tight deadlines in such rulemaking dockets. Indeed, this compares favorably with attribution matters previously addressed under the PRA within omnibus rate cases, which did have tight deadlines. There is no reason to suppose that, in costing rulemakings, UPS consultants of the type UPS claims have made valuable contributions in the past would not be able, if necessary, to get access (under protective conditions) to any data shielded for commercial purposes and conduct the same amount of analysis on such data as was conducted in past omnibus rate proceedings.

It seems fair to say that a host of matters that have unexpectedly arisen since enactment of the PAEA have led to less ability to focus on attribution issues than might have been expected. But it would be patently unfair to say that improved procedures for protecting commercially-sensitive information have in anyway impaired such focus. The strained efforts of UPS to link these two disparate issues are unavailing, and certainly should play no role in the Commission's evaluation of the FY2013 Annual Compliance Report.[28]

[28] Another example in which UPS paints with too broad a brush is when it claims at page 3, footnote 1 that: "[t]he Retiree Health Benefit Fund cost is treated as fully institutional." UPS argues such costs should be attributable to the same extent as overall labor. In fact the portion of retiree related health benefits costs (both the payments of current annuitants and Retiree Health Benefit Fund costs) which is for the current fiscal year is attributable to the same degree as all labor costs. It is only the portion of these retiree costs not related to the current fiscal year which are institutional. See Summary Description of USPS Development of Costs By Segments and Components, Fiscal Year 2012 (filed on July 1, 2013) at page 18-6, and in additional see FY 2007 ACR Report, USPS-FY07-2, Supplement. Yet while UPS implicitly acknowledges (page 3) that RHBF obligations are an external factor that can have significant impact on a simplistic calculation of attribution levels as attributable costs divided by total accrued costs, UPS appears to fail to appreciate that the burden those RHBF payments represent fatally undermines any notion that the Congress which imposed those payments could reasonably have expected post-PAEA attribution levels to rise.

VI. Comments of Newspaper Association of America

In its comments, the Newspaper Association of America ("NAA") notes that the Postal Service did not file a data collection report for the Valassis NSA in compliance with PRC Order No. 1448.[29] NAA goes on to encourage the Commission to require the Postal Service to promptly file such a report.[30] While the Postal Service acknowledges that it did not file the data collection report referred to by NAA, subsequent information filed in this ACR docket make such a report unnecessary. Indeed, as the Postal Service reported in response to Chairman's Information Request No. 6, Question 14, no eligible pieces were mailed under the contract during FY 2013. In response to the same question the Postal Service also noted that it had not waived the $100,000 penalty and was currently in discussions with Valassis about collecting such payment. As no contract pieces were mailed, there is no additional data for the Postal Service to report. Consequently, responding to the remaining aspects of the data collection report, including an analysis of the impact of the Valassis NSA on TMC mailings, would seem superfluous.

VII. Comments of Pitney Bowes

Pitney Bowes criticizes the disparity in both cost coverage and unit contribution between First-Class Mail Single-Piece Letters and First-Class Mail Presorted Letters. Pitney Bowes (PB) Comments at 1-3. The Commission responded to this issue (also raised by Pitney Bowes in the FY2012 ACR docket) in the Fiscal Year 2012 Annual Compliance Determination Report, stating:

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[29] Docket No. ACR2013, Comments of the Newspaper Association of America, at 3 (January 31, 2014).
[30] *Id*. at 4-5.

> Market dominant mailers have the protection of a price cap to shield them from excessive price increases. One objective of section 3622 is to allow the Postal Service pricing flexibility. Because the CPI cap is applied at the class level rather than the product level, it gives the Postal Service the ability to apply non-uniform price adjustments within a class. In the past, the Postal Service has often used its pricing flexibility in ways that benefit mailers of the Presort Letters/Postcards product. For example, in FY 2012 the Postal Service offered a free second ounce for all presort letters up to 2 ounces. Additionally, the 2012 Mobile Commerce and Personalization Program provided a discount to mailers that included a two-dimensional mobile barcode inside or on the mailpiece. These pricing strategies have the effect of mitigating price increases. Further, the information provided in the comments and reply comments is insufficient to justify a finding that the different price increases applied to categories of mail within First Class is unreasonable.

2012 ACD at 82. The Postal Service agrees with this finding and believes that it applies in Fiscal Year 2013 just as it did in Fiscal Year 2012.

Pitney Bowes also questioned the Postal Service's calculation of the passthrough for First-Class Mail AADC Letters. PB Comments at 3-4. The Postal Service presented its views on this issue in response to ChIR No. 5, Question 9 (February 11, 2014). In that response, the Postal Service explains that the weighted average of AADC/3-Digit costs should be used not only as a benchmark for the calculation of 5-Digit prices but also for the calculation of AADC/3-Digit prices. The cost avoidance calculations should be consistent. The logic that is used in the first instance (AADC and 3-Digit are functioning as one price cell since their prices have been equalized) can and should be used for the derivation of AADC/3-Digit prices. It makes no sense to have a different cost avoidance for AADC than for 3-Digit, when they effectively represent just one price cell. Using only AADC cost avoidance for this price cell ignores the 3-digit cost avoidance.

The Postal Service agrees with Pitney Bowes (PB Comments at 4) that the First-Class Mail Flats modeling improvements presented in Docket No. RM2014-1 (proposal 8) should be used in the Annual Compliance Determination.

VIII. Conclusion

The Postal Service appreciates the opportunity to comment on the issues raised by the parties in their initial comments.

Respectfully submitted,

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